

Market Summary Auckland Office

Executive Summary

- The Auckland region's office market has experienced a difficult year to date as a result of a subdued economy.
- Tenant demand has continued to soften over the third quarter of 2009.
- Sublease space and incentives are increasing as occupier demand weakens. An incentive of 1 month per year of lease is not uncommon and is expected to increase.
- Rents have softened, with upper rents taking more of the impact in overall decreases.
- Construction levels are much lower than 1990s downturn.
- Construction in the CBD was limited as the economy impacts market confidence, but an increase in supply is expected over the remainder of 2009.
- A transition towards the tenant in the tenant-landlord relationship is taking place as occupier demand decreases.
- More positive signals to emerge over the next 12 months.

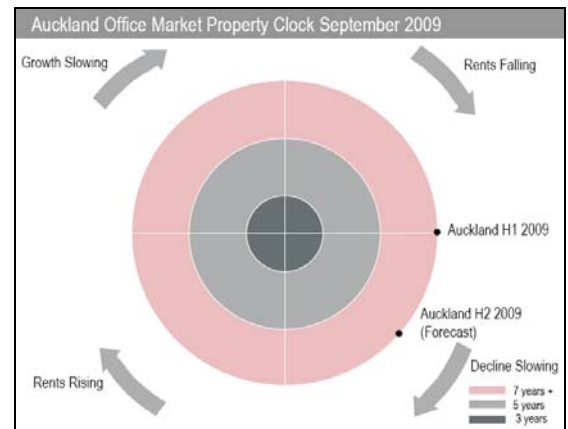
Q309 Overview

The Auckland region's office market has faced many challenges during 2009, with softening yields since the peak of the market, falling rents throughout all sectors and a decrease in tenant demand. Selected properties, usually of a secondary nature, are remaining available on the market for longer. A transition phase between the tenant-landlord relationship is taking place with landlords offering more incentives to try and attract and secure tenants as occupier demand falls. Development activity has slowed, with both the Auckland CBD office and Suburban office stock remaining unchanged between surveys.



Market Statistics

Current		Forecast	
Upper Landmark Rent	↓ \$520	Upper Landmark Rent	↓ \$500
Lower Landmark Rent	↓ \$390	Lower Landmark Rent	↓ \$380
Prime Yield	↑ 8.63%	Prime Yield	↔ 8.63%
CBD Vacancy	↑ 7.60%	CBD Vacancy	↑ 9.60%



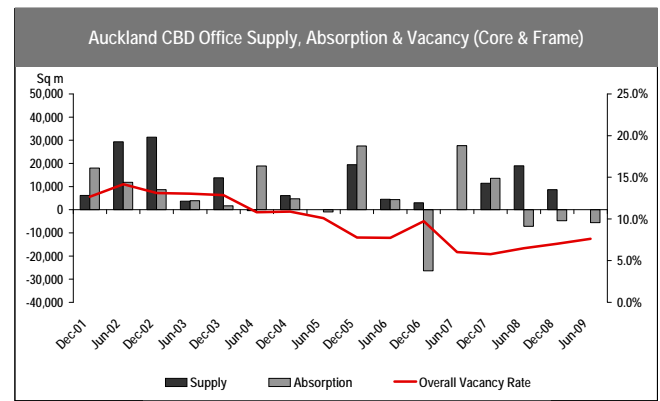
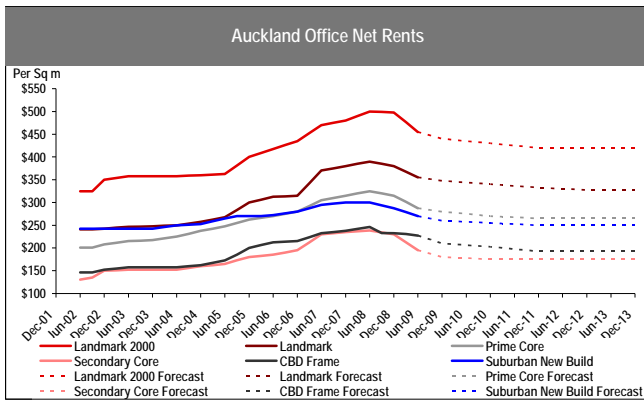
Tenant Demand

Tenant demand for the Auckland region's office market has softened over 2009, with a focus towards cost reduction and business resizing. Overall net absorption in the Auckland office market has decreased further, which was primarily a result of a large decrease in net absorption in the Suburban office market. Vacancy rates have continued to increase in every sector with lower quality office space experiencing less demand. Landlords are now becoming increasingly focused on maintaining their tenants and cash flow. As a result we are seeing a shift towards further incentives and turn-key options.

Rents

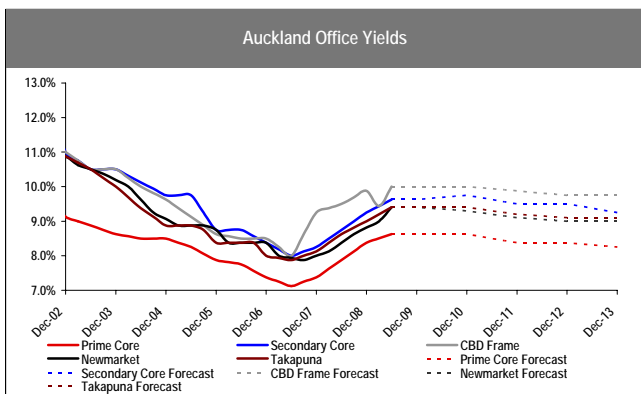
Overall rents in the Auckland office market have so far fallen in 2009 after being relatively stable over 2008. Rents in every sector in the office market dropped, with upper rents of all precincts more vulnerable to the decrease in tenant demand, seeing larger drops than the lower end rents which have remained far more stable. While a number of firms are still facing large rent increases due to lengthy periods between rent reviews, the tenant-landlord relationship is shifting slowly towards the tenant, therefore allowing the tenant to negotiate more favourable terms.

underutilised space.



Yields

Yields in the Auckland region's office market have continued to soften through all sectors over 2009 to date. Due to a number of external influences that have arisen from the global financial crisis, yields in the CBD, Fringe and Suburban office sectors have all softened further over the year. Looking forward, yields are expected to stabilise at a slightly higher level over the next two years and then begin to improve in 2011.



Rents

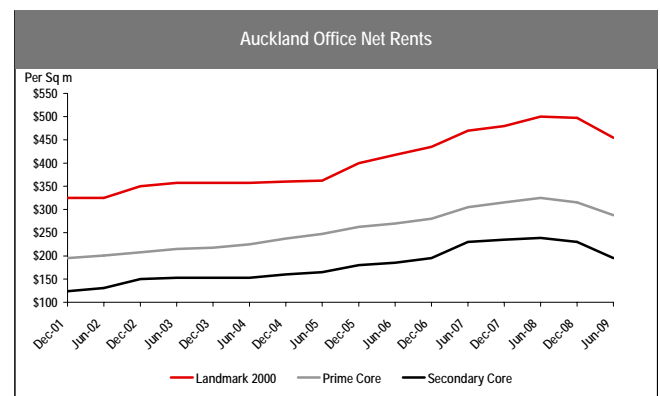
Rents have declined further throughout the Auckland CBD office market in the latest Jones Lang LaSalle survey. The biggest impact has been felt at the upper end with upper Landmark rentals down to \$520 psm from \$585 psm and average rents falling to \$455 psm from \$498 psm in December 2008. While landlords are trying to maintain face rents at high levels in order to protect their cash flow, incentives have increased and are expected to do so further in the short to medium term. Prime and Secondary Core rents have fallen by 9.4% and 15.2% to reach average rents of \$288 psm and \$195 psm respectively. In contrast, CBD Frame rents have only marginally declined, with average rents now sitting at \$228 psm, only \$5 psm lower than December 2008.

CBD Office

The CBD office market, which has 940,000 sqm of stock, incorporates the CBD Core and CBD Frame areas. The CBD office precinct remains the hub of the Auckland office market.

Tenant Demand

Tenant demand in the Auckland CBD office market has decreased further, with overall net absorption decreasing by 5,600 sqm in our latest survey. This is the third consecutive period of negative net absorption recorded. The softening in occupier demand is most notable in the decrease in net absorption in the CBD Core with a decrease of 9200 sqm, while the CBD Frame had an increase of 3,550 sqm, the result of a number of smaller existing vacancies being leased. The overall vacancy for the Auckland CBD market increased by 0.6 percentage points to reach 7.6%. While there was no change in stock in either precinct, the CBD Core had a substantial increase in vacancy from 6.3% over the 6 months ending December 2008 to 7.8% and the CBD Frame decreased from 8.5% to 7.3%. Subleased space is becoming more common in the CBD market, with a number of options becoming available as occupiers look to reduce overheads and sub-lease any

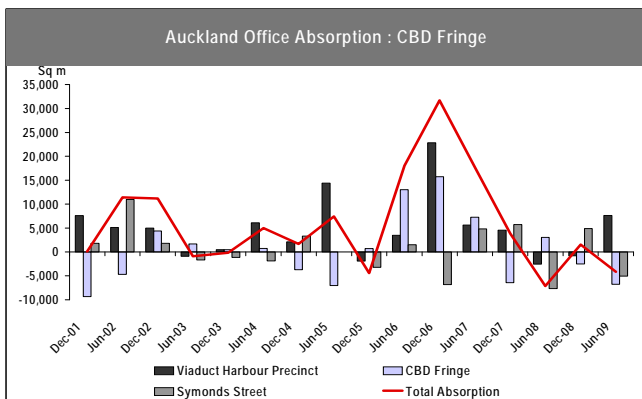


Yields

Weakening economic growth, an increasing unemployment rate and further deterioration in the economic and financial climate have attributed to yields in the Auckland CBD office area softening by between 25 and 50 basis points. The Prime and Secondary Core yields reached an average of 8.63% and 9.63% respectively. CBD Frame yields also softened by an average of 12 basis points with the yield range widening from 9.25% and 10.5% to 9.0% and 11%. During 2009, the Forsyth Barr tower located outside the Prime Core area in Shortland Street sold for just over \$41 million at a yield of around 9.4%. West Plaza has also been sold for around \$20 million. Sales in the Fringe that occurred includes 43 College Hill for \$7.8 million at an initial yield 10.14% and 103 Khyber Pass Road for \$4 million at 8.7%. It is expected that yields will stabilise over the short to medium term and begin to firm thereafter.

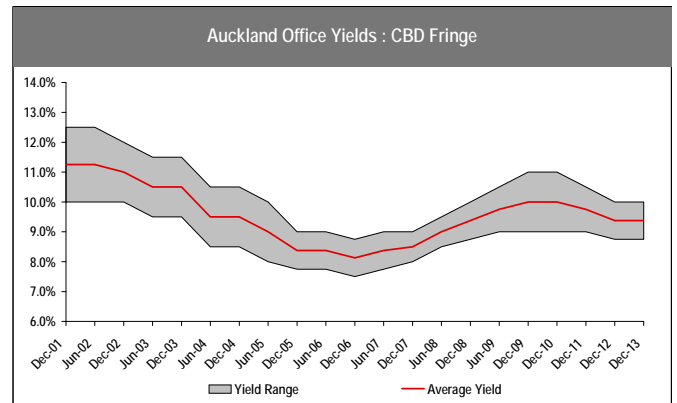
Fringe Office

Auckland's Fringe office market, Symonds Street, CBD Fringe and Viaduct Harbour precincts, increased by nearly 15,000 sqm of stock in our latest survey. The Fringe office market continues to be an alternative option for tenants who seek quality working environments with proximity to the CBD, lower rents and occupancy costs relative to the CBD, and ready access to main arterial routes and motorways. The Symonds Street and Viaduct Harbour precincts also provide high quality premises in favourable positions close to the CBD.



Yields

Yields for the Auckland Fringe office market have softened by 25 to 50 basis points in the mid-year survey, which is consistent with the general upward trend in yields across the Auckland office sector. The average yield now sits around 9.75%. This is a result of finance company collapses and high interest rates which have deteriorated investor's confidence and resulted in some investors seeking higher investment yields. It is expected that yields in the Auckland Fringe office market will ease by another 50 basis points at the lower end over the short to medium term and then begin to firm thereafter.



Tenant Demand

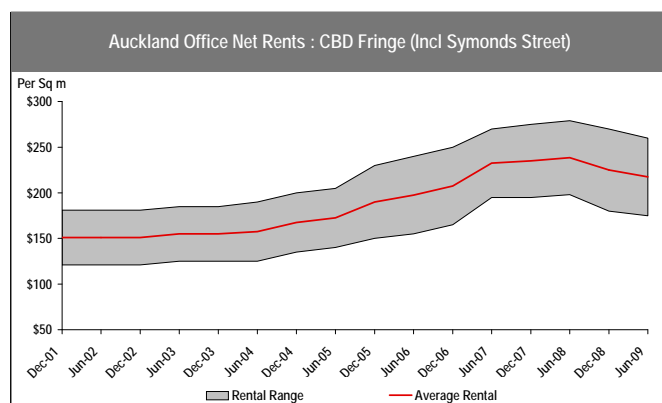
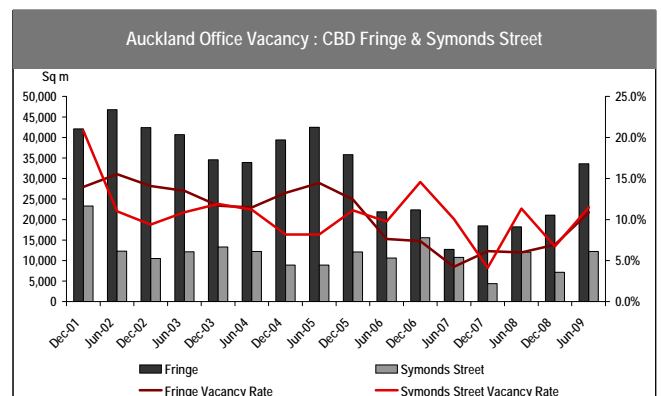
The overall Auckland Fringe office market experienced a net absorption loss of 4,143 sqm, noticeably more than the increase in net absorption of 1,571 sqm in the period ending December 2008. The decrease is attributed to both the Symonds Street and CBD Fringe precincts which experienced negative net absorption of 5,050 sqm and 6,750 sqm respectively; whilst at the same time the Viaduct Harbour precinct had a net absorption increase of 7,650 sqm. The overall vacancy rate increased significantly from 6.2% in the previous period to 9.5%, the highest rate recorded since December 2005. As with the decrease in overall net absorption, the biggest factors of the increase in overall vacancy were the CBD Fringe and Symonds Street. These areas experienced increases of 3 and 4.8 percentage points respectively, while the Viaduct precinct only experienced a small increase of 0.7 percentage points.

Suburban Office

The three main Suburban office precincts are the Southern Corridor, Newmarket and Takapuna. The size of the suburban office market has continued to increase in recent years, particularly in the Southern Corridor precinct, where there has been high demand for affordable, high quality space.

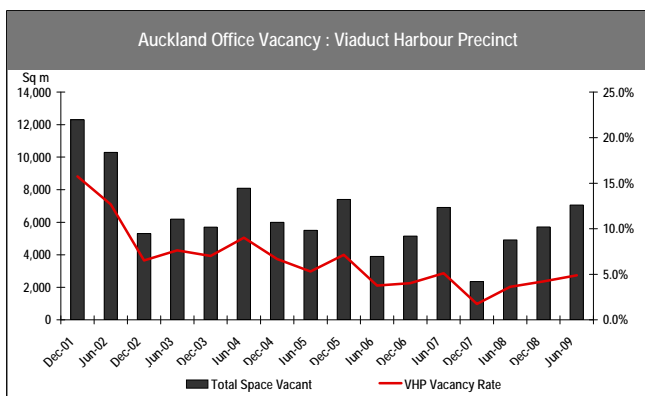
Rents

The Fringe office rents have decreased by 7% on average over the last 6 months and now attract rents between \$175 psm and \$260 psm. Rental growth in the CBD Fringe is expected to continue easing in light of further options becoming available in the precinct.



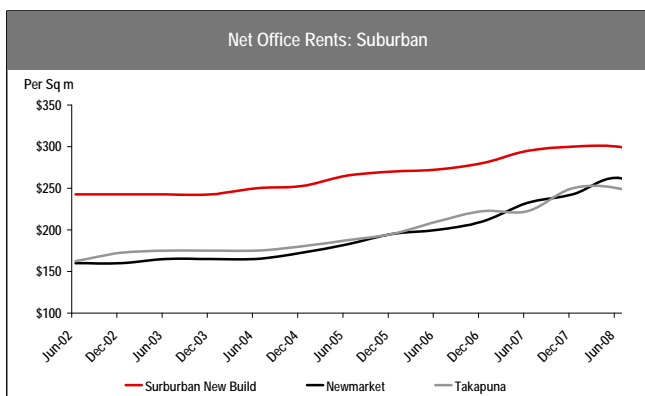
Tenant Demand

Tenant demand in the Suburban office market has decreased in the last Jones Lang LaSalle survey. Net absorption decreased by 16,300 sqm, more than double that of the previous 6 months. All locations within the Suburban office market experienced negative net absorption but Newmarket had the highest decrease of 9,900 sqm. Although there has been a large amount of development in the Southern Corridor over the last five years, there was no change recorded in the stock in the mid year survey. The overall vacancy rate for the precinct has increased by 3.6 percentage points since the previous 6 month period to sit at 10.3%. Vacancy in all the locations increased, but Newmarket had the biggest influence on the overall rate with an increase from 6% to 12.6%.



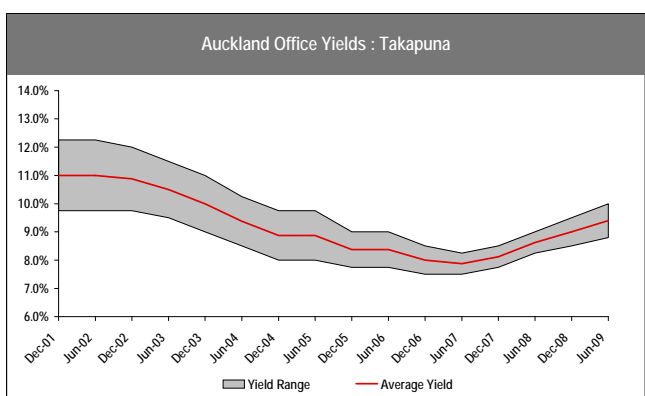
Rents

Rents in the Auckland suburban office market have continued to ease over 2009. Rents for the Takapuna precinct have fallen an average of 7.4%, while rents in Newmarket and the new build premises in the Southern Corridor, have fallen an average of 6.3% and 5.6% respectively. It is expected that rents will soften further in the suburban office market in the short term.



Yields

Average yields for both Newmarket and Takapuna increased by 40 basis points in the latest survey to sit at 9.4%. Both the upper and lower yields softened for both precincts moving from 8.5% and 9.5% to 8.8% and 10%. The short term outlook is that the spread between upper and lower yields is expected to widen with average yields staying relatively stable.



Recent Leasing Evidence

No	Location	Rental	Lease Term
23	Customs Street East, Auckland City	\$386,900	6 years
1	Broadway, Newmarket	\$332,084	9 years
2-6	Crowhurst Street, Newmarket	\$288,045	6 years
55-65	Shortland Street, Auckland City	\$262,686	7.25 years
128-130	Parnell Road, Parnell	\$179,735	6 years
15	Vestey Drive, Mt Wellington	\$167,400	n/a
345	Queen Street, Auckland CBD	\$167,000	n/a
2	Commerce Street, Auckland City	\$145,300	9 years

Recent Sales Evidence

No	Location	Sale Price	Yield
55-65	Shortland Street, Auckland City	\$41,500,000	9.39%
4	Viaduct Harbour Ave, Viaduct	\$26,600,000	10.36%
44-56	Queen Street, Auckland City	\$22,000,000	3.95%
135-151	Broadway, Newmarket	\$13,850,000	8.74%
43	College Hill, Freemans Bay	\$7,854,000	10.14%
130	Khyber Pass, Grafton	\$4,000,000	8.68%
12	O'Connell Street, Auckland City	\$1,300,000	n/a

Outlook

As the economy slows and businesses have begun to resize, the Auckland Region's office market is expected to experience further challenges over the short to medium term. However, some positive sentiment in the market is emerging. While rents are likely to continue decreasing, it will be at a lower rate. Investors that purchased for short-term gains at the height of the market may not be able to regain last values unless they can identify value extraction possibilities.

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